

**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 14, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 14, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Allen County Sheriff as of April 14, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,479,263 for the districts for 2005 taxes, retaining commissions of \$233,442 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,254,659 to the districts for 2005 Taxes. Refunds of \$16,080 are due to the Sheriff from the taxing districts.

Report Comments:

- Funds Should Be Deposited Intact On A Daily Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 8, 2005 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$2,418,343

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the Allen County Sheriff's Settlement - 2005 Taxes as of April 14, 2006. This tax settlement is the responsibility of the Allen County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Allen County Sheriff's taxes charged, credited, and paid as of April 14, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Funds Should Be Deposited Intact On A Daily Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 2, 2006

ALLEN COUNTY
LES MARSH, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 14, 2006

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|---|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 479,842 | \$ 1,361,976 | \$ 2,675,483 | \$ 635,862 |
| Tangible Personal Property | 58,639 | 257,680 | 273,163 | 283,153 |
| Intangible Personal Property | | | | 18,598 |
| Fire Protection | 2,432 | | | |
| Volunteer Fire Dues | | 183,570 | | |
| Sub-Light | | 4,410 | | |
| Increases Through Exonerations | | 30 | | 935 |
| Franchise Taxes | 47,878 | 138,073 | 227,563 | |
| Additional Billings | 7,464 | 20,646 | 41,951 | 9,772 |
| Oil and Gas Property Taxes | 334 | 948 | 1,864 | 442 |
| Limestone, Sand and Mineral Reserves | 180 | 510 | 1,002 | 238 |
| Penalties | 3,973 | 13,505 | 22,050 | 5,425 |
| Adjusted to Sheriff's Receipt | 732 | 2,087 | 4,058 | 967 |
| Gross Chargeable to Sheriff | 601,474 | 1,983,435 | 3,247,134 | 955,392 |
| <u>Credits</u> | | | | |
| Exonerations | 6,411 | 19,300 | 33,668 | 6,445 |
| Discounts | 7,725 | 26,063 | 41,927 | 14,554 |
| Delinquents: | | | | |
| Real Estate | 10,038 | 35,540 | 55,849 | 13,254 |
| Tangible Personal Property | 343 | 982 | 1,874 | 1,188 |
| Oil/Gas Property Tax | 63 | 180 | 354 | 84 |
| Franchise Taxes - Uncollected | 3,850 | 11,063 | 17,417 | |
| Total Credits | 28,430 | 93,128 | 151,089 | 35,525 |
| Taxes Collected | 573,044 | 1,890,307 | 3,096,045 | 919,867 |
| Less: Commissions * | 24,642 | 76,536 | 92,882 | 39,382 |
| Taxes Due | 548,402 | 1,813,771 | 3,003,163 | 880,485 |
| Taxes Paid | 549,183 | 1,815,933 | 3,007,330 | 882,213 |
| Refunds (Current and Prior Year) | 667 | 1,935 | 3,753 | 887 |
| Refunds Due Sheriff | | ** | | |
| as of Completion of Fieldwork | \$ (1,448) | \$ (4,097) | \$ (7,920) | \$ (2,615) |

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

ALLEN COUNTY
 LES MARSH, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 April 14, 2006
 (Continued)

* Commissions:

| | |
|-------------|-----------|
| 10% on \$ | 10,000 |
| 4.25% on \$ | 2,555,230 |
| 4% on \$ | 642,305 |
| 3% on \$ | 3,271,728 |

** Special Taxing Districts:

| | |
|----------------------------|--------------------------|
| Library District | \$ (1,294) |
| Health District | (529) |
| Extension District | (379) |
| Soil Conservation District | (65) |
| Ambulance District | (1,386) |
| Volunteer Fire Dues | (430) |
| Sub Light | <u>(14)</u> |
| Refunds Due Sheriff | <u><u>\$ (4,097)</u></u> |

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 14, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 14, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 14, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 8, 2005, \$2,418,343 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$2,418,343

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2005 through April 14, 2006.

Note 4. Interest Income

The Allen County Sheriff earned \$2,547 as interest income on 2005 taxes. The Sheriff should distribute the appropriate amount to the school district as required by statute, and the remainder should be distributed to the county treasurer since the county pays the salaries and expenses of the Sheriff's office. As of November 2, 2006, the Sheriff owed \$1,181 in interest to the school district and \$1,366 in interest to the county treasurer.

Note 5. Sheriff's 10% Add-On Fee

The Allen County Sheriff collected \$33,398 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office. As of November 2, 2006, the Sheriff owed \$3,948 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Allen County Sheriff collected \$4,580 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff should distribute the advertising costs to the county as required by statute, and the advertising fees are to be used to operate the Sheriff's office. As of November 2, 2006, the Sheriff owed \$2,145 in advertising costs and advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

ALLEN COUNTY
LES MARSH, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 14, 2006

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

Funds Should Be Deposited Intact On a Daily Basis

Technical Audit Bulletin 93-002, Section 3 requires the Sheriff to deposit funds intact on a daily basis. During tax year 2005, we noted funds were not deposited on a daily basis. Abnormal delays (more than three business days) were noted between dates received and dates deposited for daily receipts. For October 2005 tax collections, \$3,571,621 of tax collections were not deposited timely. Deposits cleared the bank within four to ten business days. Tax collections undeposited as of November 1, 2005 were \$3,395,897. We recommend tax collections be deposited daily.

Sheriff's Response:

This problem has already been corrected.

The Sheriff's Office Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff implement the compensating controls noted below to offset the internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should periodically compare the monthly tax distribution reports to receipts ledger for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax distribution report.
- The Sheriff should periodically compare payments to taxing districts to checks. The Sheriff should document this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to checks.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should receive a signed receipt from each taxing district documenting delivery of the tax payments.

Sheriff's Response:

Due to lack of personnel (sic).

ALLEN COUNTY
LES MARSH, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 14, 2006
(Continued)

PRIOR YEAR:

The following finding reported in the prior year audit report has been corrected.

- The Sheriff Should Retain Commissions For The Collection And Distribution Of Fire Dues

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Les Marsh, Allen County Sheriff
Members of the Allen County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Allen County Sheriff's Settlement - 2005 Taxes as of April 14, 2006, and have issued our report thereon dated November 2, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Funds Should Be Deposited Intact On A Daily Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Allen County Sheriff's Settlement - 2005 Taxes as of April 14, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 2, 2006

